

**SABRE INSURANCE GROUP PLC**

**AUDIT AND RISK COMMITTEE**

**TERMS OF REFERENCE**

These terms of reference were adopted by the Audit and Risk Committee on 9 November 2017 and approved by the board of directors of Sabre Insurance Group plc (the "**Company**") (the "**Board**") on 9 November 2017.

**1. MEMBERSHIP**

- 1.1. The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. The Chairman of the Board may be a member of (but not Chair) the Committee if they were considered independent on appointment as Chairman. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Committee (the "**Committee Chairman**").
- 1.2. Membership shall include, where possible, one member of the Remuneration Committee. Additionally, at least one member of the Committee shall have significant, recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies, and at least one member of the Committee shall have significant, recent and relevant risk management experience. The Chairman of the Board shall not be a member of the Committee.
- 1.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, other directors, the heads of risk and compliance, representatives from the Group's (as defined in paragraph 9 below) finance function and external advisers may be invited to attend for all or part of any meeting as and when deemed appropriate and necessary by the Board or the Committee.
- 1.4. The external auditor, the head of internal audit (if any) and the Chief Financial Officer will be invited to attend meetings of the Committee on a regular basis.
- 1.5. Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three year periods, so long as the relevant member continues to be independent.
- 1.6. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the relevant meeting.

## **2. SECRETARY**

The Company Secretary or their nominee shall act as the secretary to the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to its business.

## **3. QUORUM**

- 3.1. The quorum necessary for the transaction of business at a meeting of the Committee shall be two members (including wherever possible, at least one member with significant, recent and relevant financial experience and at least one member with significant, recent and relevant risk management experience). A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 3.2. The members of the Committee shall, at the beginning of each meeting, declare the existence of any conflicts of interest arising and the Secretary to the Committee shall minute them accordingly.
- 3.3. The members of the Committee may meet for the despatch of business, adjourn and otherwise regulate meetings as they think fit. Without prejudice to the foregoing, all or any of the members of the Committee may participate in a meeting of the Committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear and speak to each other. A member of the Committee so participating shall be deemed to be present in person at the meeting and shall be entitled to fully participate and be counted in the quorum accordingly.
- 3.4. Without prejudice to the provisions of paragraphs 3.1 to 3.3 above, the members of the Committee may make decisions without a meeting, by unanimous written consent, but only when deemed appropriate and necessary by the Committee Chairman.

## **4. MEETINGS**

- 4.1. The Committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2. Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue (highlighting, in particular, any matters of concern in relation to risk management, solvency matters or compliance with any regulatory obligations) with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the heads of any compliance and internal audit functions.

## **5. NOTICE OF MEETINGS**

- 5.1. Meetings of the Committee shall be convened by the Secretary to the Committee at the request of any of its members or at the request of the external audit lead partner or the head of any internal audit function.

- 5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.
- 5.3. The notice period set out in paragraph 5.2 may be reduced at the sole discretion of the Committee Chairman to whatever they consider appropriate.
- 5.4. The Committee may send notices, agendas and supporting papers in electronic form where the recipient has agreed to receive documents in such a way.

## **6. VOTING ARRANGEMENTS**

- 6.1. Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.
- 6.2. If a matter that is considered by the Committee is one where a member of a Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 6.3. Except where he has a personal interest, the Committee Chairman shall have a casting vote.
- 6.4. The Committee Chairman may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

## **7. MINUTES OF MEETINGS**

- 7.1. The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including the names of those present and in attendance.
- 7.2. Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless, in the opinion of the Committee Chairman, it would be inappropriate to do so.
- 7.3. Final signed copies of the minutes of the Committee should be maintained for the Company's records, in hard and soft copy (where possible).

## **8. ANNUAL GENERAL MEETING**

The Committee Chairman shall attend the annual general meeting of the Company to answer any shareholder questions on the Committee's activities and areas of responsibility.

## 9. DUTIES

The Committee should have oversight of the Company and its subsidiaries as a whole (the "**Group**") and, unless required otherwise by regulation, carry out the duties detailed below for the Group as a whole (as appropriate) and assist on such other matters as may be referred to it by the Board.

### 9.1. Financial reporting

9.1.1. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, quarterly trading updates, interim management statements (if any), preliminary announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditor.

9.1.2. In particular, the Committee shall review and challenge where necessary:

- (a) compliance with legal, regulatory and statutory requirements giving due considerations to the provisions of the UK Governance Code and requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook, and any other applicable rules as appropriate;
- (b) compliance with the requirements of any body by which the activities of the Company is regulated (including, without limitation, the requirements of the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**");
- (c) the application, appropriateness and consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Group;
- (d) the methods used to account for significant or unusual transactions where different approaches are possible;
- (e) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor in relation to the financial statements;
- (f) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Company and the Group looking forward over an appropriate and justified period);

- (g) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- (h) all material information presented with the financial statements, such as the business review, the corporate governance statements relating to the audit and to risk management, and the section of the Directors' report which describes the role and responsibilities of the Committee and the actions taken by the Committee to discharge those responsibilities;
- (i) the key annual regulatory returns that require to be filed by the Company or its subsidiaries, including, but not limited to, the Solvency and Financial Condition Report, and, in the case of subsidiaries, recommend those returns for review and approval by their boards;
- (j) the annual report and accounts and financial statements of significant subsidiaries within the Group and the consolidated financial statements of the Group, recommending their adoption by the Board (if appropriate); and
- (k) any other statements which contain financial information and which require approval of the Board.

9.1.3. Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

9.1.4. Where practicable and consistent with any prompt reporting requirements under any law or regulation (including, for the avoidance of doubt, the Financial Conduct Authority's Listing Rules, Prospectus Rules or Disclosure Guidance and Transparency Rules sourcebook), any review by the Committee of statements which contain financial information and which require approval of the Board shall be carried out prior to the approval of such statement by the Board.

## **9.2. Narrative reporting**

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable, provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy and supports the Board's statement on these matters, as required by the prevailing UK Corporate Governance Code (or any replacement governance code) and set out in the annual report and accounts.

## **9.3. Internal controls**

The Committee shall:

- 9.3.1. continually review the adequacy and effectiveness of the Group's internal control system, including financial and operational controls, as well as the procedures for monitoring their effectiveness;
- 9.3.2. receive and review assurance reports from management, internal audit, external audit and others on matters relating to any aspect of the internal control system and review the timeliness of, and reports on, the effectiveness of corrective action taken by management;
- 9.3.3. consider any necessary disclosure implications of the process which has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts; and
- 9.3.4. review and approve the statements to be included in the annual report or any other announcement concerning internal controls.

#### **9.4. Risk management**

The Committee shall:

- 9.4.1. advise the Board on the Group's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by the PRA, the FCA, the Financial Services Commission ("**FSC**") and other authoritative sources that may be relevant for the Group's risk policies;
- 9.4.2. oversee and advise the Board on current risk exposures of the Group and future risk strategy;
- 9.4.3. in relation to risk assessment:
  - (a) keep under review the Group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
  - (b) review regularly and approve the parameters used in these measures and the methodology adopted;
  - (c) keep under review the adequacy and effectiveness of the Company's risk management systems;
  - (d) review the Group's processes and procedures for ensuring that material business risks are properly identified and managed and that appropriate systems of monitoring and control are in place;
  - (e) review how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate;

- (f) review the assurance reports from management on the effectiveness of the Company's risk management systems;
  - (g) set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance;
  - (h) oversee the development of proposals for consideration by the Board in respect of the overall risk appetite and tolerance of the Group;
  - (i) review the Group's principal risk policies for consistency with the Group's risk appetite and approve any material changes to these policies; and
  - (j) review and approve the statements to be contained within the Company's annual report or any other announcement concerning risk management (including, for the avoidance of doubt, the viability statement);
- 9.4.4. regularly review the Group's capability to identify and manage emerging risks;
  - 9.4.5. oversee and challenge the design and execution of stress and scenario testing including reverse stress testing;
  - 9.4.6. oversee and challenge management's day-to-day risk management and oversight arrangements;
  - 9.4.7. provide qualitative and quantitative advice to the Remuneration Committee on the implications of the remuneration policy for risk, risk management and any risk weightings to be applied to performance objectives set out in respect of executive remuneration;
  - 9.4.8. provide the advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Group;
  - 9.4.9. review the capital adequacy of the Group taking into account the forward looking assessment of risks from the outcomes of the Own Risk and Solvency Assessment ("**ORSA**") process;
  - 9.4.10. recommend to the Board for approval the Group's ORSA report prior to its forming the basis of the risk and solvency submissions to the Group's regulatory supervisor;
  - 9.4.11. satisfy itself on an ongoing basis that risk-based information is used effectively by management and the Board in the running of the business, including, without limitation, in respect of the Group's re-insurance strategy;
  - 9.4.12. before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular

on risk aspects and implications for the risk appetite and tolerance of the Group, and taking independent external advice where appropriate and necessary;

- 9.4.13. ensure that the risk management framework is formally reviewed at a minimum of quarterly intervals and that formal review reports are presented to the Committee for consideration;
- 9.4.14. consider and review areas of specific risk to the Company and the Group;
- 9.4.15. review reports on any material breaches of risk limits and the adequacy of any proposed actions; and
- 9.4.16. consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its functions effectively and in accordance with the relevant professional standards (in particular, ensuring the risk management function has adequate independence and is free from management and other restrictions).

## **9.5. Compliance, whistleblowing and fraud**

The Committee shall:

- 9.5.1. receive regular reports on significant litigation and compliance issues involving the Group;
- 9.5.2. review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action and ensure that the Group's arrangements are compliant with the Accountability and Whistleblowing Instrument 2015 and any other regulations that apply to the Group;
- 9.5.3. review the Group's procedures for detecting fraud;
- 9.5.4. review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 9.5.5. review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Group's anti-money laundering systems and controls; and
- 9.5.6. continually review the adequacy and effectiveness of the Group's compliance function and review regular reports from the head of the compliance function.

## **9.6. Internal audit**

The Committee shall:

- 9.6.1. approve the appointment, resignation or dismissal of the head of the internal audit function and recommend the remuneration of the head of the internal audit function to the Remuneration Committee;
- 9.6.2. ensure the head of the internal audit function has direct access to the Committee Chairman and the Chairman of the Board, and is accountable to the Committee;
- 9.6.3. review and approve the remit of the internal audit function and ensure the function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee shall also ensure any such function has appropriate authority and standing within the Company and is free from management or other restrictions;
- 9.6.4. review and approve the internal audit plan and any proposed significant amendments that may arise;
- 9.6.5. receive reports from the head of the internal audit function and review and monitor management's responsiveness to the findings and recommendations of the internal audit function;
- 9.6.6. meet with the head of the internal audit function at least once a year without the presence of management;
- 9.6.7. review and monitor significant findings from any internal audit investigations;
- 9.6.8. where there is no internal audit function, consider annually whether there is a need for an internal audit function; and
- 9.6.9. review and monitor the effectiveness of the internal audit function at appropriate intervals.

## **9.7. Reserving**

If requested by the Board, the Committee shall:

- 9.7.1. oversee and challenge, where necessary, the annual reserving cycle including, in particular, the quarterly reserves process;
- 9.7.2. review and recommend to the Board an overall approach for the annual reserving cycle;
- 9.7.3. prior to the commencement of the process for the determination of quarterly reserves by the Board, review and approve the process and, at the conclusion of the process, obtain reassurance that the process has been correctly followed including, without limitation, from external auditors who have been involved in the reserving process;

9.7.4. review, challenge and make recommendations to the Board regarding improvements to the process; and

9.7.5. review the quarterly reserves process and make recommendations to the Board, as appropriate.

## **9.8. External audit**

The Committee shall, taking into account any applicable law and legislation, other professional requirements and the FRS's Revised Ethical Standard Role:

9.8.1. oversee the relationship with the external auditor including (but not limited to):

- (a) the approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (b) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (c) making recommendations on their remuneration, including consideration at least annually of both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
- (d) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence, the safeguards applied to mitigate those threats and the provision of any non-audit services by the auditor;
- (e) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (f) satisfying itself that there are no relationships (such as family, employments, investment, financial or business) between the auditor and the Company, or any member of the Group, (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity; and
- (g) agreeing with the Board a policy on the employment of former employees of the external auditor, taking account of relevant ethical standards, and monitoring the application of this policy,

9.8.2. consider and make recommendation to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;

- 9.8.3. ensure that at least once every ten years, the audit services contract is put to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and in respect of such tender, oversee the selection process and ensure that all tendering forms have such access as it necessary to information and individuals during the duration of the tendering process;
- 9.8.4. meet regularly with the external auditor and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the interim review and year end audits;
- 9.8.5. review and approve the annual audit plan;
- 9.8.6. review the findings of the audit with the external auditor and any matters which the external auditor or the Board may wish to discuss;
- 9.8.7. review the management letter and management's response to the auditor's findings and recommendations;
- 9.8.8. develop and recommend to the Board, the Company's formal policy on external auditor's provision of non-audit services, including the Committee's approval of non-audit services and the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a director or material effect on the audited financial statements;
- 9.8.9. ensure the provision of non-audit services does not impair the external auditor's independence or objectivity, satisfying itself that there are no relationships between the auditor and the Company outside the ordinary course of business (including the level of non-audit fees) that could adversely affect the auditor's independence and objectivity, or the audit process;
- 9.8.10. keep the policy for the provision of non-audit services under review; and
- 9.8.11. review and assess annually the qualifications, expertise and effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.

## **10. REPORTING RESPONSIBILITIES**

- 10.1. The Committee Chairman shall report formally to the Board on (a) its proceedings after each meeting of the Committee on all matters within its duties and responsibilities and (b) how it has discharged its responsibilities. This report shall include:
  - 10.1.1. the significant issues that it considered in relation to the financial statements and how these were addressed;
  - 10.1.2. its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor

(including details of the length of tenure of the external auditor, when a tender was last conducted and any advance notice of proposed re-tendering plans);

- 10.1.3. the Group's risk management strategy to be included in the annual report and accounts; and
  - 10.1.4. any other issues on which the Board has requested the Committee's opinion.
- 10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where the Committee considers action or improvement is needed.
  - 10.3. The Committee shall compile a report on its activities to be included in the Company's annual report and accounts. That report shall include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor, and all other information requirements set out in the prevailing version of the UK Corporate Governance Code (or any replacement governance code); a statement of compliance with the provisions of the Competition & Markets Authority Statutory Audit Services for Large Companies Markey Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014; and, if the Company has not completed a competitive tender process for auditor appointments in the last consecutive five years, a statement of when the Company next proposes to complete a tender and the reason why a tender in that particular financial year is in the best interest of the Company's members.
  - 10.4. In compiling the reports referred to in paragraphs 10.1 and 10.3, the Committee shall exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern, the inputs to the reliability statement and the basis of the risk management objectives and policies. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **11. OTHER MATTERS**

The Committee shall:

- 11.1. have access to sufficient resources in order to carry out its duties, including access to the company secretarial function and any employees of the Group for assistance as required;
- 11.2. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 11.3. give due consideration to laws and regulations (including the Companies Act 2006), the provisions of the UK Corporate Governance Code (or any replacement governance code) and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules,

and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate, and give due consideration to the recommendations and requirements of any body which regulates the activities of the Group (whether such recommendations and requirements have force of law or not);

- 11.4. be responsible for co-ordination of the external auditors and any internal audit function;
- 11.5. oversee any investigation of activities which are within its terms of reference;
- 11.6. work and liaise as necessary with all other Board committees;
- 11.7. arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval; and
- 11.8. make available these terms of reference.

## **12. AUTHORITY**

The Committee is authorised to:

- 12.1. undertake any activity within its terms of reference;
- 12.2. request the heads of the compliance and internal audit functions to carry out such independent reviews as it deems necessary and report back to the Committee;
- 12.3. seek any information it requires from any employee or director of the Group in order to perform its duties;
- 12.4. obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter where it believes it is necessary to do so;
- 12.5. call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.6. have the right to publish in the Company's annual report and accounts details of any issues that cannot be resolved between the Committee and the Board.